

AIG Life of Bermuda, Ltd.
Audited GAAP Financial Statements
December 31, 2018 and 2017



Report of Independent Auditors

To the Board of Directors and Shareholder of
AIG Life of Bermuda, Ltd.

We have audited the accompanying consolidated financial statements of AIG Life of Bermuda, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income (loss), equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIG Life of Bermuda, Ltd. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Houston, Texas
April 26, 2019

AIG LIFE OF BERMUDA, LTD.

TABLE OF CONTENTS

	<u>Page</u>
CONSOLIDATED FINANCIAL STATEMENTS	
Independent Auditor's Report	2
Consolidated Balance Sheets at December 31, 2018 and 2017	3
Consolidated Statements of Income for the years ended December 31, 2018 and 2017	4
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018 and 2017	5
Consolidated Statements of Equity for the years ended December 31, 2018 and 2017	6
Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	
1. Basis of Presentation	8
2. Summary of Significant Accounting Policies	9
3. Fair Value Measurements	12
4. Investments	17
5. Reinsurance	21
6. Variable Interest Entities	22
7. Insurance Liabilities	23
8. Contingencies	24
9. Equity	24
10. Statutory Financial Data and Restrictions	25
11. Income Taxes	26
12. Related Party Transactions	29
13. Subsequent Events	31

**AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED BALANCE SHEETS**

<i>(in millions, except for share data)</i>	December 31,	
	2018	2017
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2018 – \$434; 2017 – \$331)	\$ 429	\$ 342
Policy loans	22	80
Short-term investments (portion measured at fair value: 2018 – \$8; 2017 – \$46)	15	54
Total investments	466	476
Accrued investment income	5	4
Amounts due from related parties	158	1,510
Reinsurance assets	4	4
Other assets	29	56
Separate account assets, at fair value	1,098	1,316
Total assets	\$ 1,760	\$ 3,366
Liabilities:		
Future policy benefits for life insurance contracts	\$ -	\$ 1,215
Policyholder contract deposits	22	80
Policy claims and benefits payable	-	13
Income taxes payable to parent	601	576
Deferred income taxes	33	45
Amounts due to related parties	3	2
Other liabilities	2	29
Separate account liabilities	1,098	1,316
Total liabilities	1,759	3,276
Contingencies (see Note 8)		
AIG Life of Bermuda, Ltd. shareholder's equity:		
Preferred stock, \$0.36 par value; 6,500,000,000 shares authorized; issued and outstanding: 2018 - 0 and 2017 - 0	-	-
Common stock, \$1 par value; 250,000 shares authorized, 250,000 issued and outstanding	-	-
Additional paid-in capital	154	169
Accumulated deficit	(149)	(111)
Accumulated other comprehensive income (loss)	(4)	32
Total AIG Life of Bermuda, Ltd. shareholder's equity	1	90
Noncontrolling interest	-	-
Total equity	1	90
Total liabilities and equity	\$ 1,760	\$ 3,366

See accompanying Notes to Consolidated Financial Statements.

**AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF INCOME**

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
Revenues:		
Premiums	\$ (17)	\$ (20)
Policy fees	17	19
Net investment income	21	30
Net realized capital gains (losses)	(68)	72
Other income	24	23
Total revenues	(23)	124
Benefits and expenses:		
Policyholder benefits	4	26
Interest credited to policyholders	4	4
General operating and other expenses	12	8
Net gain on sale of divested business	(24)	-
Total benefits and expenses	(4)	38
Income (loss) before income tax expense	(19)	86
Income tax expense	19	203
Net loss attributable to AIG Life of Bermuda, Ltd.	\$ (38)	\$ (117)

See accompanying Notes to Consolidated Financial Statements.

AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
Net loss	\$ (38)	\$ (117)
Other comprehensive loss, net of tax		
Change in unrealized appreciation (depreciation) of fixed maturity investments	(13)	1
Change in foreign currency translation adjustments	(23)	(18)
Other comprehensive loss	(36)	(17)
Comprehensive loss attributable to AIG Life of Bermuda, Ltd.	\$ (74)	\$ (134)

See accompanying Notes to Consolidated Financial Statements.

**AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF EQUITY**

<i>(in millions)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumul ated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total AIG Bermuda Shareholder's Equity	Non Controlling Interest	Total Share- holder's Equity
Balance, January 1, 2017	\$ 434	\$ -	\$ 331	\$ 13	\$ 44	\$ 822	\$ 8	\$ 830
Net loss	-	-	-	(117)	-	(117)	-	(117)
Dividends	-	-	-	(2)	-	(2)	-	(2)
Other comprehensive loss	-	-	-	-	(17)	(17)	-	(17)
Capital contribution from AGC Life	-	-	149	-	-	149	-	149
Return of capital	-	-	(311)	-	-	(311)	-	(311)
Preferred stock redemption	(434)	-	-	-	-	(434)	-	(434)
Decrease from deconsolidation	-	-	-	-	-	-	(8)	(8)
Reclassification of certain tax effects from AOCI	-	-	-	(5)	5	-	-	-
Balance, December 31, 2017	\$ -	\$ -	\$ 169	\$ (111)	\$ 32	\$ 90	\$ -	\$ 90
Net loss	-	-	-	(38)	-	(38)	-	(38)
Other comprehensive loss	-	-	-	-	(36)	(36)	-	(36)
Capital distribution to AGC Life	-	-	(15)	-	-	(15)	-	(15)
Balance, December 31, 2018	\$ -	\$ -	\$ 154	\$ (149)	\$ (4)	\$ 1	\$ -	\$ 1

See accompanying Notes to Consolidated Financial Statements.

AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (38)	\$ (117)
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest credited to policyholders	4	4
Net realized capital losses (gains)	68	(72)
Equity in income of partnerships and other invested assets	-	(4)
Amortization of net premium on investments	1	-
Provision for deferred income taxes	99	26
Capitalized interest	(4)	(5)
Net (gains) losses on sale of divestiture	(24)	-
Changes in operating assets and liabilities:		
Accrued investment income	(1)	-
Amounts due to/from related parties	(24)	(16)
Current income tax receivable/payable	(92)	205
Future policy benefits and other insurance reserves	1	7
Other, net	-	1
Total adjustments	28	146
Net cash provided by (used in) operating activities	(10)	29
Cash flows from investing activities:		
Proceeds from (payments for)		
Sale of available for sale investments	16	22
Divestiture of interest in a consolidated subsidiary	-	5
Redemption and maturities of fixed maturity securities available for sale	32	20
Principal payments received on maturities of policy loans	63	6
Principal payments received on settlement of notes receivables*	-	745
Sale of divestiture	75	-
Purchases of:		
Available for sale investments	(153)	(59)
Policy loans	(1)	(1)
Net change in short-term investments	39	(35)
Other, net	1	3
Net cash provided by investing activities	72	706
Cash flows from financing activities:		
Net exchanges to/from separate accounts	(62)	(5)
Dividends and return of capital paid to Parent Company, net of contributions	-	(294)
Dividends paid to preferred shareholders	-	(2)
Preferred stock redemption	-	(434)
Net cash used in financing activities	(62)	(735)
Net decrease in cash and restricted cash	-	-
Cash and restricted cash at beginning of year	-	-
Cash and restricted cash at end of year	\$ -	\$ -

Supplementary Disclosure of Consolidated Cash Flow Information

	Years Ended December 31,	
	2018	2017
Cash paid during the period for:		
Taxes	\$ 12	\$ (29)
Non-cash activities:		
Non-cash deemed capital (distribution) contribution for settlement of taxes (to) from AGC Life	(15)	97
Other non-cash capital contribution from AGC Life	-	35

* Included in the amounts due from related parties on the Consolidated Balance Sheets
See accompanying Notes to Consolidated Financial Statements.

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

AIG Life of Bermuda, Ltd. (AIG Bermuda), including its wholly owned subsidiaries (AIG Credit Corp of Canada (AI Credit Canada) and Alabaster Capital LLC (Alabaster Capital)) is a wholly owned subsidiary of AGC Life Insurance Company (AGC Life), an indirect, wholly owned subsidiary of American International Group, Inc. (AIG Parent). Unless the context indicates otherwise, the terms "the Company," "we," "us" or "our" mean AIG Life of Bermuda, Ltd. and its consolidated subsidiaries, and the term "AIG Parent" means American International Group, Inc. and not any of AIG Parent's consolidated subsidiaries.

Our wholly-owned subsidiary, American General Life Insurance of Bermuda, Ltd., which was established in 2004 and did not have any business activity at this time, was amalgamated within AIG Life of Bermuda, Ltd. on May 1, 2018.

In December 2017, we received additional capital contributions of \$35 million from AGC Life in the form of 100% equity holdings of AI Credit Canada and Alabaster Capital. The 2017 and subsequent consolidated financial statements of the Company include the accounts of AI Canada and Alabaster Capital.

In July 2017, we sold our equity interest with Rokland Limited (Rokland) to an affiliate. Prior to the sale, Rokland was a direct wholly owned subsidiary and was the primary beneficiary of our consolidated VIEs. After the sale, we derecognized our equity interest with Rokland, including its investments in VIEs that were previously consolidated.

Our principal activities are the insurance of flexible premium variable universal life insurance, reinsurance of term life, annuity and pension insurance risk, and certain investment operations through our affiliates.

Our operations are influenced by many factors, including general economic conditions, financial condition of AIG Parent, monetary and fiscal policies of the government of Bermuda and policies of the Bermuda Monetary Authority (BMA). The level of sales of our insurance and financial products is influenced by many factors, including general market rates of interest, the strength, weakness and volatility of equity markets and terms and conditions of competing products. We are exposed to the risks normally associated with a portfolio of fixed income securities, which include interest rate, option, liquidity and credit risks. We control our exposure to these risks by, among other things, closely monitoring and managing the duration and cash flows of our assets and liabilities, engaging in a disciplined process of underwriting, and reviewing and monitoring credit risk. We are also exposed to market risk and mortality/longevity risk. Market volatility may result in increased risks related to death benefits, as well as reduced fee income on variable product assets held in segregated accounts.

We have private placement variable universal life insurance issued to high net worth individuals and generally retained \$5 thousand per insured and cede the remaining net amount at risk to our U.S. affiliate, American General Life Insurance Company (AGL). This product is no longer offered.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). All significant intercompany accounts and transactions have been eliminated.

The consolidated financial statements include the accounts of the Company, our controlled subsidiaries (generally through a greater than 50 percent ownership of voting rights of a voting interest entity).

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires the application of accounting policies that often involve a significant degree of judgment. Accounting policies that we believe are most dependent on the application of estimates and assumptions are considered our critical accounting estimates and are related to the determination of:

- income tax assets and liabilities, including recoverability of our deferred tax assets and the predictability of future tax operating profitability of the character necessary to realize the deferred tax assets and provisional estimates associated with the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Act);
- valuation of future policy benefit liabilities and timing and extent of loss recognition; and

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- fair value measurements of certain financial assets and liabilities.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our consolidated financial condition, results of operations and cash flows could be materially affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following table identifies our significant accounting policies presented in other Notes to these Consolidated Financial Statements, with a reference to the Note where a detailed description can be found:

Note 4.	Investments <ul style="list-style-type: none">• Fixed maturity securities• Short-term investments• Net investment income• Net realized capital gains (losses)
Note 5.	Reinsurance <ul style="list-style-type: none">• Reinsurance assets, net of allowance
Note 7.	Insurance Liabilities <ul style="list-style-type: none">• Future policy benefits• Policyholder contract deposits
Note 11.	Income Taxes

Other significant accounting policies

Premiums received for universal life and variable universal life products are reported as deposits to policyholder contract deposits and/or separate account liabilities. Reinsurance premiums ceded are recognized as a reduction in revenues over the period the reinsurance coverage is provided in proportion to the risks to which the premiums relate.

Policy fees represent revenues recognized from universal life and variable universal life products consisting of policy charges for cost of insurance and policy administration charges. Policy fees are recognized as revenues in the period in which they are assessed against policyholders, unless the fees are designed to compensate us for services to be provided in the future.

Other income primarily includes ceded commissions, risk charges and interests associated with the reinsurance agreements.

Cash represents cash on hand and non-interest bearing demand deposits.

Short-term investments consist of interest-bearing cash equivalents and investments, such as commercial paper, with original maturities within one year from the date of purchase.

Policy loans are carried at unpaid principal balances. There is no allowance for policy loans because these loans serve to reduce the death benefit paid when the death claim is made and the balances are effectively collateralized by the cash surrender value of the policy.

Separate accounts represent funds for which investment income and investment gains and losses accrue directly to the contract holders who bear the investment risk. Each account has specific investment objectives and the assets are carried at fair value. The assets of each account are legally segregated and are not subject to claims that arise from any of our other businesses. The liabilities for these accounts are equal to the account assets.

Foreign currency: Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date and the related translation adjustments are recorded as a separate component of other

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

comprehensive income, net of any related taxes. Income statement accounts expressed in functional currencies are translated using average exchange rates during the period. Functional currencies are generally the currencies of the local operating environment.

Accounting Standards Adopted During 2018

Revenue Recognition

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and certain other agreements that are governed under other GAAP guidance, but could affect the revenue recognition for certain of our other activities.

We adopted the standard using the modified retrospective approach on its required effective date of January 1, 2018. Our analysis of revenues indicated that substantially all of our revenues were from sources excluded from the scope of the standard. For those revenue sources within the scope of the standard, there were no material changes in the timing or measurement of revenues based upon the guidance. All of our revenue sources were excluded from the scope of the standard.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard that addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows.

We adopted the standard retrospectively on its effective date of January 1, 2018. The standard addresses presentation in the statement of cash flows only and did not have a material impact on our reported consolidated financial condition, results of operations or required disclosures.

Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued an accounting standard that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset is sold to a third party.

We adopted the standard on its effective date of January 1, 2018 using a modified retrospective approach. The adoption of this standard did not have a material impact on our reported consolidated financial condition, results of operations, cash flows or required disclosure.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI)

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of stranded tax effects within accumulated other comprehensive income to retained earnings that arise due to the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Act). The amount of the reclassification would reflect the impact of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Tax Act and other income tax effects of the Tax Act on items remaining in accumulated other comprehensive income.

We have elected to early adopt the accounting standard in our financial statements for the year ended December 31, 2017. The impact of the adoption of the standard resulted in an increase to beginning Accumulated other comprehensive income and a corresponding decrease to beginning Retained earnings of \$5.2 million. For more information on the adoption of the Tax Act, see Note 11.

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future Application of Accounting Standards

Financial Instruments – Credit Losses

In June 2016, the FASB issued an accounting standard that will change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new “current expected credit loss model” that generally will result in earlier recognition of credit losses. The standard will apply to financial assets subject to credit losses, including those measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. Additionally, the impairment of available-for-sale debt securities are subject to the new guidance and will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will also require additional information to be disclosed in the footnotes.

We plan to adopt the standard on its effective date, of January 1, 2020. We are continuing to develop our implementation plan to adopt the standard and are assessing the impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures. While we expect an increase in our allowances for credit losses for the financial instruments within scope of the standard, given the objective of the new standard, the amount of any change will be dependent on our portfolios’ composition and quality at the adoption date as well as economic conditions and forecasts at that time.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued an accounting standard that shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The standard does not require an accounting change for securities held at a discount, which continue to be amortized to maturity.

We plan to adopt the standard retrospectively on its effective date of, January 1, 2019. We do not expect the standard to have a material impact on our reported consolidated financial condition, results of operations, cash flows or required disclosures.

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The standard prescribes significant and comprehensive changes to recognition, measurement, presentation and disclosure as summarized below:

- Requires the review and if necessary update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement.
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income.
- Simplifies the amortization of deferred acquisition costs (DAC) to a constant level basis over the expected term of the related contracts with adjustments for unexpected terminations, but no longer requires an impairment test.
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income.
- Increased disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We plan to adopt the standard on its effective date of January 1, 2021. We are evaluating the method of adoption and impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures. The adoption of this standard is expected to have a significant impact on our consolidated financial condition, results of operations, cash flows and required disclosures, as well as systems, processes and controls.

3. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

We carry certain of our financial instruments at fair value. We define the fair value of a financial instrument as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

Fair Value Hierarchy

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are measured and classified in accordance with a fair value hierarchy consisting of three “levels” based on the observability of valuation inputs:

- **Level 1:** Fair value measurements based on quoted prices (unadjusted) in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do not adjust the quoted price for such instruments.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the levels discussed above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Valuation Methodologies of Financial Instruments Measured at Fair Value

Incorporation of Credit Risk in Fair Value Measurements

- **Our Own Credit Risk.** Fair value measurements for certain liabilities incorporate our own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to us at the balance sheet date by reference to observable AIG credit default swaps (CDS) or cash bond spreads. We calculate the effect of credit spread changes using discounted cash flow techniques that incorporate current market interest rates. A derivative counterparty's net credit exposure to us is determined based on master netting agreements, when applicable, which take into consideration all derivative positions with us, as well as collateral we post with the counterparty at the balance sheet date.
- **Counterparty Credit Risk.** Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for us to protect against our net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty CDS spreads, when available. When not available, other directly or indirectly observable credit spreads will be used to derive the best estimates of the counterparty spreads. Our net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date.

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly incorporate counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

For fair values measured based on internal models, the cost of credit protection is determined under a discounted present value approach considering the market levels for single name CDS spreads for each specific counterparty, the mid-market value of the net exposure (reflecting the amount of protection required) and the weighted average life of the net exposure. CDS spreads are provided to us by an independent third party. We utilize an interest rate based on the benchmark London Interbank Offered Rate (LIBOR) curve to derive our discount rates.

While this approach does not explicitly consider all potential future behavior of the derivative transactions or potential future changes in valuation inputs, we believe this approach provides a reasonable estimate of the fair value of the assets and liabilities, including consideration of the impact of non-performance risk.

Fixed Maturity Securities

Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets.

We employ independent third-party valuation service providers to gather, analyze, and interpret market information to derive fair value estimates for individual investments, based upon market-accepted methodologies and assumptions. The methodologies used by these independent third-party valuation service providers are reviewed and understood by management, through periodic discussion with and information provided by the independent third-party valuation service providers. In addition, as discussed further below, control processes are applied to the fair values received from independent third-party valuation service providers to ensure the accuracy of these values.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of market-accepted valuation methodologies, which may utilize matrix pricing, financial models, accompanying model inputs and various assumptions, provide a single fair value measurement for individual securities. The inputs used by the valuation service providers include, but are not limited to, market prices from completed transactions for identical securities and transactions for comparable securities, benchmark yields, interest rate yield curves, credit spreads, prepayment rates, default rates, recovery assumptions, currency rates, quoted prices for similar securities and other market-observable information, as applicable. If fair value is determined using

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

financial models, these models generally take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

We have control processes designed to ensure that the fair values received from independent third-party valuation service providers are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from independent third-party valuation service providers through various analytical techniques, and have procedures to escalate related questions internally and to the independent third-party valuation service providers for resolution. To assess the degree of pricing consensus among various valuation service providers for specific asset types, we conduct comparisons of prices received from available sources. We use these comparisons to establish a hierarchy for the fair values received from independent third-party valuation service providers to be used for particular security classes. We also validate prices for selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

When our independent third-party valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a price quote, which is generally non-binding, or by employing market accepted valuation models. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to particular security types. For structured securities, such inputs may include ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies and defaults, loss severity assumptions, prepayments, and weighted average coupons and maturities. When the volume or level of market activity for a security is limited, certain inputs used to determine fair value may not be observable in the market. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. Fair values provided by brokers are subject to similar control processes to those noted above for fair values from independent third-party valuation service providers, including management reviews. For those corporate debt instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations reflect illiquidity and non-transferability, based on available market evidence. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of comparable securities, adjusted for illiquidity and structure. Fair values determined internally are also subject to management review to ensure that valuation models and related inputs are reasonable.

The methodology above is relevant for all fixed maturity securities including commercial mortgage backed securities (CMBS) and fixed maturity securities issued by corporate entities.

Short-term Investments

For short-term investments that are measured at amortized cost, the carrying amounts of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.

Other assets

Other assets are composed of investments in certain annuity interests.

Separate Account Assets

Separate account assets are composed primarily of registered and unregistered open-end mutual funds. We generally obtain the fair value of separate account assets from net asset value information provided by mutual funds. In addition, certain mutual funds are traded daily. We measure fair value for such mutual funds by obtaining quoted prices in active

AIG LIFE OF BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

markets for identical assets at the balance sheet date. Market price data is generally obtained from exchange or dealer markets.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about assets measured at fair value on a recurring basis, and indicates the level of the fair value measurement based on the observability of the inputs used:

<i>(in millions)</i>	Level 1	Level 2	Level 3	Total
December 31, 2018				
Assets:				
Bonds available for sale:				
Non-U.S. governments	\$ -	\$ 14	\$ -	\$ 14
Corporate debt	-	315	-	315
RMBS	-	53	-	53
CMBS	-	37	-	37
CDO/ABS	-	10	-	10
Total bonds available for sale	-	429	-	429
Short-term investments	-	8	-	8
Other assets	-	-	7	7
Separate account assets	179	919	-	1,098
Total	\$ 179	\$ 1,356	\$ 7	\$ 1,542
December 31, 2017				
Assets:				
Bonds available for sale:				
Non-U.S. governments	\$ -	\$ 4	\$ -	\$ 4
Corporate debt	-	304	-	304
CMBS	-	34	-	34
Total bonds available for sale	-	342	-	342
Short-term investments	-	46	-	46
Other assets	-	-	8	8
Separate account assets	183	1,133	-	1,316
Total	\$ 183	\$ 1,521	\$ 8	\$ 1,712

Transfers of Level 1 and Level 2 Assets and Liabilities

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. We had no significant transfers between Level 1 and Level 2 during the years ended December 31, 2018 and 2017.

AIG LIFE OF BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the years ended December 31, 2018 and 2017 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Consolidated Balance Sheets at December 31, 2018 and 2017:

<i>(in millions)</i>	Fair Value Beginning of Year	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair Value End of Year	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Year
December 31, 2018								
Assets:								
Other assets	\$ 8	\$ 1	\$ -	\$ (2)	\$ -	\$ -	\$ 7	\$ -
Total	\$ 8	\$ 1	\$ -	\$ (2)	\$ -	\$ -	\$ 7	\$ -
December 31, 2017								
Assets:								
Other assets	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ -	\$ 8	\$ -
Total	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ -	\$ 8	\$ -

Net realized and unrealized gains and losses included in income related to Level 3 assets and liabilities shown above were reported in the Consolidated Statements of Income as follows:

<i>(in millions)</i>	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
December 31, 2018				
Other assets	\$ 1	\$ -	\$ -	\$ 1
December 31, 2017				
Other assets	\$ -	\$ -	\$ -	\$ -

The following table presents the gross components of purchases, sales, issues and settlements, net, shown above:

<i>(in millions)</i>	Purchases	Sales	Settlements	Purchases, Sales, Issuances and Settlements, Net
December 31, 2018				
Assets:				
Other assets	\$ -	\$ -	\$ (2)	\$ (2)
Total assets	\$ -	\$ -	\$ (2)	\$ (2)
December 31, 2017				
Assets:				
Other assets	\$ -	\$ -	\$ -	\$ -
Total assets	\$ -	\$ -	\$ -	\$ -

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at December 31, 2018 and 2017 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets

We record transfers of assets into Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. There was no net realized and unrealized gains (losses) recognized or other comprehensive income (loss) related to assets transferred into Level 3 in 2018 and 2017.

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Transfers of Level 3 Assets

During the years ended December 31, 2018 and 2017, transfers into Level 3 assets consisted of certain annuity policies transferred into to the Company as a result of our equity interest in Alabaster Capital.

Quantitative Information about Level 3 Fair Value Measurements

Significant unobservable inputs are used for recurring fair value measurements for certain Level 3 instruments, and include only those instruments for which information about the inputs is reasonably available to us, such as data from independent third-party valuation service providers and from internal valuation models.

Fair value estimates for the investments in annuity interests are calculated using discounted cash flows based on medical underwriting ratings of the policies from a third-party underwriter, applied to an industry mortality table. Our mortality assumptions are based on an industry table as supplemented with proprietary data.

Fair Value Information About Financial Instruments Not Measured At Fair Value

Information regarding the estimation of fair value for financial instruments not carried at fair value (excluding insurance contracts) is discussed below.

- **Policy loans:** The fair value of policy loans is estimated based on unpaid principal amount. No consideration is given to credit risk because policy loans are effectively collateralized by the cash surrender value of the policies.
- **Short-term investments:** The carrying amounts of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.

The following table presents the carrying values and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used:

<i>(in millions)</i>	Estimated Fair Value				Total	Carrying Value
	Level 1	Level 2	Level 3			
December 31, 2018						
Assets:						
Policy loans	\$ -	\$ -	\$ 22	\$ 22	\$ 22	\$ 22
Short-term investments	-	7	-	7	7	7
Other assets	-	-	22	22	22	22
December 31, 2017						
Assets:						
Policy loans	\$ -	\$ -	\$ 80	\$ 80	\$ 80	\$ 80
Short-term investments	-	6	-	6	6	6
Other assets	-	-	23	23	23	23

4. INVESTMENTS

Fixed Maturity Securities

Bonds held to maturity are carried at amortized cost when we have the ability and positive intent to hold these securities until maturity. When we do not have the ability or positive intent to hold bonds until maturity, these securities are classified as available for sale and are measured at fair value. None of our fixed maturity securities met the criteria for held to maturity classification at December 31, 2018 or 2017.

Fixed maturity securities classified as available for sale are carried at fair value. Unrealized gains and losses from available for sale investments in fixed maturity securities are reported as a separate component of accumulated other comprehensive income, net of deferred income taxes, in shareholder's equity. Investments in fixed maturity securities are recorded on a trade-date basis.

AIG LIFE OF BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. For investments in certain CMBS (structured securities), recognized yields are updated based on current information regarding the timing and amount of expected undiscounted future cash flows. For high credit quality structured securities, effective yields are recalculated based on actual payments received and updated prepayment expectations, and the amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. For structured securities that are not high credit quality, effective yields are recalculated and adjusted prospectively based on changes in expected undiscounted future cash flows.

Securities Available for Sale

The following table presents the amortized cost or cost and fair value of our available for sale securities:

<i>(in millions)</i>	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Bonds available for sale: ^(a)				
Non-U.S. Governments	\$ 14	\$ -	\$ -	14
Corporate debt	318	3	(6)	315
RMBS	54	-	(1)	53
CMBS	38	-	(1)	37
CDO/ABS	10	-	-	10
Total bonds available for sale^(b)	\$ 434	\$ 3	\$(8)	429
December 31, 2017				
Bonds available for sale: ^(a)				
Non-U.S. Governments	\$ 4	\$ -	\$ -	4
Corporate debt	294	10	-	304
CMBS	33	1	-	34
Total bonds available for sale^(b)	\$ 331	\$ 11	\$(0)	342

(a) There were no other-than-temporary impairments recognized in accumulated other comprehensive income as of December 31, 2018 and 2017.

(b) At December 31, 2018 and 2017, bonds available for sale held by us that were below investment grade or not rated totaled \$9 million and \$7 million, respectively.

Securities Available for Sale in a Loss Position

The following table summarizes the fair value and gross unrealized losses on our available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position:

<i>(in millions)</i>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2018						
Bonds available for sale:						
Corporate debt	\$ 144	\$ (3)	\$ 64	\$ (3)	\$ 208	\$ (6)
RMBS	53	(1)	-	-	53	(1)
CMBS	20	-	17	(1)	37	(1)
CDO/ABS	10	-	-	-	10	-
Total bonds available for sale	\$ 227	\$(4)	\$ 81	\$(4)	\$ 308	\$(8)
December 31, 2017						
Bonds available for sale:						
Corporate debt	\$ 26	-	\$ 14	-	\$ 40	-
CMBS	10	-	-	-	10	-
Total bonds available for sale	\$ 36	\$(0)	\$ 14	\$(0)	\$ 50	\$(0)

At December 31, 2018, we held 60 individual fixed maturity securities that were in an unrealized loss position, of which 14 individual fixed maturity securities were in a continuous unrealized loss position for 12 months or more. At December

AIG LIFE OF BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31, 2018, the gross unrealized losses associated with these fixed maturity securities were insignificant. We did not recognize the unrealized losses in earnings on these fixed maturity securities at December 31, 2018, because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

<i>(in millions)</i>	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities in a Loss Position Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2018				
Due in one year or less	\$ 18	\$ 18	\$ 1	\$ 1
Due after one year through five years	89	90	30	29
Due after five years through ten years	214	209	183	178
Due after ten years	11	12	-	-
Mortgage-backed, asset-backed and collateralized	102	100	102	100
Total	\$ 434	\$ 429	\$ 316	\$ 308
December 31, 2017				
Due in one year or less	\$ 13	\$ 13	\$ -	\$ -
Due after one year through five years	111	116	-	-
Due after five years through ten years	157	160	40	40
Due after ten years	17	19	-	-
Mortgage-backed, asset-backed and collateralized	33	34	10	10
Total	\$ 331	\$ 342	\$ 50	\$ 50

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

In 2018 and 2017, the aggregate fair value of available for sale securities sold was \$16 million and \$22 million, respectively. In 2018 and 2017, the gross realized gains and gross realized losses from sales or maturities of our available for sale securities were insignificant.

Net Investment Income

Net investment income represents income primarily from the following sources:

- Interest income and related expenses, including amortization of premiums and accretion of discounts on bonds with changes in the timing and the amount of expected principal and interest cash flows reflected in yield, as applicable.
- Interest income on policy loans.
- Earnings from the underlying investment of funds held by a reinsurer under insurance treaties.

AIG LIFE OF BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the components of net investment income:

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
Fixed maturity securities, including short-term investments	\$ 16	\$ 14
Policy loans	4	5
Other investments	1	11
Total investment income	21	30
Investment expenses	-	-
Net investment income	\$ 21	\$ 30

Net Realized Capital Gains and Losses

Net realized capital gains and losses are determined by specific identification. The net realized capital gains and losses are generated primarily from the following sources:

- Sales or full redemption of available for sale fixed maturity securities.
- Changes in fair value of derivatives assumed from American International Reinsurance Company Ltd. (AIRCO).
- Novation of reinsurance treaty assumed from AIRCO.

The following table presents the components of net realized capital gains (losses):

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
Derivatives	\$ (66)	\$ 72
Other	(2)	-
Net realized capital (losses) gains	\$ (68)	\$ 72

Evaluating Investments for Other-Than-Temporary Impairments

Fixed Maturity Securities

If we intend to sell a fixed maturity security or it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized capital losses. When assessing our intent to sell a fixed maturity security, or whether it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition our investment portfolio, sales of securities to meet cash flow needs and sales of securities to take advantage of favorable pricing.

For fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recoverable value with a corresponding charge to realized capital losses. The estimated recoverable value is the present value of cash flows expected to be collected, as determined by management. The difference between fair value and amortized cost that is not related to a credit impairment is presented in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were recognized (a separate component of accumulated other comprehensive income).

When estimating future cash flows for structured fixed maturity securities (e.g., RMBS, CMBS, CDO, ABS) management considers historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and priority of payment structure of the security. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by asset class:

- Current delinquency rates;

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Expected prepayment speeds.

For corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers the fair value as the recoverable value when available information does not indicate that another value is more relevant or reliable. When management identifies information that supports a recoverable value other than the fair value, the determination of a recoverable value considers scenarios specific to the issuer and the security, and may be based upon estimates of outcomes of corporate restructurings, political and macroeconomic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

We consider severe price declines in our assessment of potential credit impairments. We may also modify our model inputs when we determine that price movements in certain sectors are indicative of factors not captured by the cash flow models.

In periods subsequent to the recognition of other-than-temporary impairment charges for available for sale fixed maturity securities that are not foreign exchange related, we prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recoverable value over the remaining expected holding period of the security.

5. REINSURANCE

In the ordinary course of business, we utilize internal reinsurance relationships to facilitate capital management strategies. We generally limit our exposure to loss on any single insured to \$5,000 by ceding additional risks through reinsurance contracts with a U.S. AIG affiliate.

Our reinsurance arrangements do not relieve us from our direct obligations to our beneficiaries. Thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer fails to meet the obligations assumed under any reinsurance agreement. We believe that no exposure to a single reinsurer represents an inappropriate concentration of credit risk to us.

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented as a component of reinsurance assets. The premiums with respect to these treaties are earned over the contract period in proportion to the protection provided.

The following table presents the effect of reinsurance on our premiums:

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
Ceded premiums	\$ (17)	\$ (20)

We have various reinsurance agreements with affiliated companies whereby we reinsure term life, annuity and pension products. In March 2002, we began assuming certain term life and universal life products of a U.S. AIG affiliate under a combination coinsurance and modified coinsurance agreement (co-modco). The affiliated ceding company's life reserves subject to this agreement were \$328 million and \$318 million at December 31, 2018 and 2017, respectively. In 2003, we also began assuming certain annuity products of a U.S. AIG affiliate under a co-modco agreement. The affiliated ceding company's annuity reserves subject to this agreement were \$7.2 billion and \$8.1 billion at December 31, 2018 and 2017, respectively. These agreements do not meet the criteria for reinsurance accounting under GAAP; therefore, deposit accounting is applied.

Certain agreements with our U.S. AIG affiliates provide for an experience refund of all profits, less a reinsurance risk charge. The most significant impact of the agreements on our consolidated results of operations in 2018 and 2017 was pre-tax income of approximately \$13 million and \$12 million, respectively, representing the risk charge and interest

AIG LIFE OF BERMUDA, LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

associated with the reinsurance agreements. Amounts due from related parties at December 31, 2018 and 2017 included \$158 million and \$132 million, respectively, related to these reinsurance agreements.

We provide letters of credit (LOCs) to secure the reserve credits taken for these reserves by the AIG affiliated ceding company on their respective statutory balance sheets. The LOCs are subject to reimbursement by AIG Parent in the event of a drawdown. Total outstanding LOCs were \$450 million at both December 31, 2018 and 2017. The cost of the LOCs was \$3 million in both 2018 and 2017.

The Company previously entered into a reinsurance agreement effective November 30, 2010, with AIRCO under which we assumed a 100% quota share of an in force closed block of deferred and payout annuities that AIRCO assumed from Phoenix Life Limited (Phoenix, formerly ALBA Life, Ltd.).

Under the terms of the reinsurance agreement with AIRCO, AIRCO retained assets in a funds withheld account that would otherwise have been paid to us, which was included in amounts due from related parties in our Consolidated Balance Sheets. The balance of the funds withheld totaled \$925 million at December 31, 2017. These funds withheld by AIRCO were supported by a specified portfolio of assets, subject to a security agreement between AIRCO and Phoenix. Under the contractual terms of the reinsurance agreement, the realized and unrealized gains and losses and net investment income related to the specified portfolio of assets inured to our benefit.

In addition, the funds withheld account contained an embedded derivative, which was deemed similar to a total return swap on the specified underlying investment portfolio. The fair value of the embedded derivative was included in amounts due from related parties, with changes in the fair value of the embedded derivative recorded in net realized capital gains (losses). The fair value of the embedded derivative was \$107 million at December 31, 2017.

In connection with AIRCO's reinsurance agreement with Phoenix, AIRCO entered into a series of interest rate and currency swap agreements. Gains and losses associated with these derivatives inured to our benefit and were recorded in net realized capital gains (losses). Amounts due from related parties associated with these swap agreements at December 31, 2017 were \$452 million.

In February 2018, AIG Bermuda and its affiliated Bermuda-based insurance companies, AIRCO and Fortitude Reinsurance Company, Ltd. (Fortitude Re) signed a tri-party agreement novating AIG Bermuda's rights and obligations under its November 30, 2010 retrocession agreement with AIRCO. Pursuant to this agreement, all of the rights and obligations previously held by AIG Bermuda are now retroceded to Fortitude Re, a wholly owned subsidiary of AIG Parent and registered Class 4 and Class E reinsurer in Bermuda. The novation and release agreement was executed on February 12, 2018 and involved the transfer of approximately \$1.2 billion of reinsured reserves and \$1.3 billion due from related parties. As a result of the novation, the Company recognized a gain of \$24 million and received \$75 million in cash proceeds. In addition to the outstanding balances transferred on the execution date, the initial consideration also included the net results experienced under the retrocession agreement from the January 1, 2017 effective date in the agreement through the execution date. Further, the interest rate and currency swap agreements associated with the retrocession agreement now inure to the benefit of Fortitude Re.

6. VARIABLE INTEREST ENTITIES

A variable interest entity (VIE) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but is based on other criteria discussed below.

We consolidate VIEs when we determine we are the primary beneficiary. This analysis includes a review of the VIE's capital structure, related contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and our involvement with the entity. When assessing the need to consolidate a VIE, we evaluate the design of the VIE as well as the related risks the entity was designed to expose the variable interest holders to.

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of our decision-making ability and our ability to influence activities that significantly affect the economic performance of the VIE.

We calculate our maximum exposure to loss to be the amount invested in the debt or equity of the VIE and other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by us generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to us, except in limited circumstances when we have provided a guarantee to the VIE's interest holders.

As discussed in Note 1, we sold our equity interest in Rokland and as a result we derecognized our equity interest in Rokland, including its investments in VIEs that were previously consolidated. At December 31, 2018 and 2017, we no longer have any consolidated VIEs.

7. INSURANCE LIABILITIES

Future Policy Benefits

Future policy benefits primarily include reserves for deferred and annuity payout contracts, which represent an estimate of the present value of future benefits less the present value of future net premiums.

The deferred annuity contracts we previously reinsured on a retrocession agreement, prior to a novation of the reinsurance agreement with AIRCO in 2018, were issued in conjunction with the termination of occupational pension programs in the United Kingdom (UK). To the extent that annuitization at retirement is required, they were accounted for as "limited-payment contracts" under GAAP. The liability for future policy benefits was computed using mortality tables published by the Institute and Faculty of Actuaries in the UK, and assumptions for mortality improvement based on a combination of historical mortality trends and published industry information. Present value at December 31, 2017 was calculated at an interest rate of 2.4 percent.

For long duration traditional products, a "locked-in" assumption applies. The assumptions used to calculate benefit liabilities are set when a contract is issued and do not change with changes in actual experience, unless a loss recognition event occurs. These "locked-in" assumptions include mortality, morbidity, persistency, maintenance expenses, and investment returns and include margins for adverse deviation to reflect uncertainty given that actual experience might deviate from these assumptions. Periodically, we evaluate assumptions used in establishing liabilities for long duration traditional insurance contracts, which include assumed liabilities for certain deferred annuities. A loss recognition event occurs when there is a shortfall between the carrying amount of future policy benefit liabilities, and what the future policy benefit liabilities would be when applying updated current assumptions. When we determine a loss recognition event has occurred, we record additional liabilities through a charge to policyholder benefits, the old assumption set is replaced and the assumption set used for the loss recognition would then be subject to the lock-in principle.

For the deferred and payout annuity contracts, if the assets supporting the liabilities maintained a temporary net unrealized gain position at the balance sheet date, loss recognition testing assumptions were updated to exclude such gains from future cash flows by reflecting the impact of reinvestment rates on future yields. If a future loss was anticipated under this basis, any additional shortfall indicated by loss recognition tests was recognized as a reduction in accumulated other comprehensive income (shadow loss recognition) and an increase in liabilities for future policy benefits. The change in these adjustments, net of tax, was included with the change in net unrealized appreciation of investments that is credited or charged directly to other comprehensive income.

In 2018 and 2017, the Company did not recognize any pre-tax adjustments related to actual loss recognition.

AIG LIFE OF BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Policyholder Contract Deposits

The liability for policyholder contract deposits is primarily recorded at accumulated value (deposits received and net transfers from separate accounts, plus accrued interest credited, less withdrawals and assessed fees). The policyholder contract deposits at December 31, 2018 and 2017 primarily include transfers from separate accounts for policy loans.

Policy Claims and Benefits Payable

Policy claims and benefits payable include amounts representing: (i) the actual in-force amounts for reported variable universal life claims; and (ii) valid proof of loss claims (as defined in the reinsurance agreement) for all contracts eligible to receive benefits at the balance sheet date. There is no discounting for possible non-receipt of the appropriate proofs of loss due to unreported deaths. The methods of making estimates and establishing the resulting reserves are continually reviewed and updated and any adjustments are reflected in current period income.

8. CONTINGENCIES

Legal and Regulatory Matters

We are party to various lawsuits and proceedings arising in the ordinary course of business. We believe it is unlikely that contingent liabilities arising from such lawsuits will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Various regulatory and governmental agencies may from time to time review, examine or inquire into our operations, practices and procedures, such as through financial examinations, market conduct exams or regulatory inquiries. Based on the current status of pending regulatory examinations and inquiries involving us, we believe it is not likely that these regulatory examinations or inquiries will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

9. EQUITY

Accumulated Other Comprehensive Income

The following table presents the components of accumulated other comprehensive income:

<i>(in millions)</i>	December 31,	
	2018	2017
Unrealized appreciation of fixed maturity securities, available for sale	\$ (5)	\$ 11
Foreign currency translation adjustments	1	29
Deferred income tax	-	(8)
Accumulated other comprehensive income	\$ (4)	\$ 32

The following table presents the other comprehensive income (loss) reclassification adjustments:

<i>(in millions)</i>	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments	Foreign Currency Translation Adjustments	Total
Year ended December 31, 2017			
Unrealized change arising during period	\$ 2	\$ (28)	\$ (26)
Less: Reclassification adjustments included in net income	-	-	-
Total other comprehensive income (loss), before income tax expense (benefit)	2	(28)	(26)
Less: Income tax expense (benefit)	1	(10)	(9)
Total other comprehensive income (loss),			

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

net of income tax expense (benefit)	\$	1	\$	(18)	\$	(17)
Year ended December 31, 2018						
Unrealized change arising during period	\$	(16)	\$	(1)	\$	(17)
Less: Reclassification adjustments included in net income		-		28		28
Total other comprehensive income (loss), before income tax expense (benefit)		(16)		(29)		(45)
Less: Income tax expense (benefit)		(3)		(6)		(9)
Total other comprehensive income (loss), net of income tax expense (benefit)	\$	(13)	\$	(23)	\$	(36)

The following table presents the effect of the reclassification of significant items out of accumulated other comprehensive income on the respective line items in the Consolidated Statements of Income:

<i>(in millions)</i>	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statements of Income
	December 31,		
	2018	2017	
Foreign currency translation adjustments	28	-	Net realized capital gains (losses)
Total reclassifications for the period	\$ 28	\$ -	

Preferred Stock

We entered into transactions with AIG Financial Products (AIGFP) and certain of its affiliates whereby AIGFP purchased shares of the Company's preferred stock or loaned funds to us. We loaned or contributed all funds received from AIGFP to our investees, which in turn used the funds as capital for their investment operations. All the original investment activity of the investees has terminated.

In June 2017, we redeemed the Company's preferred stock held by AIGFP and settled any accrued dividends. Total amount paid to AIGFP was \$438 million.

10. STATUTORY FINANCIAL DATA AND RESTRICTIONS

The following table presents our statutory net income and capital and surplus:

<i>(in millions)</i>	2018
Year Ended December 31,	
Statutory net loss	\$ (38)
At December 31,	
Statutory capital and surplus	351
Aggregate minimum required statutory capital and surplus	18

We file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by the BMA. The principal differences between statutory financial statements and financial statements prepared in accordance with GAAP relate to the presentation of both consolidated and unconsolidated data within the statutory financial statements. In addition, we received approval from the BMA to recognize AIG Parent's contingent tax liability as an asset in our statutory financial statements. The contingent tax liability is secured by LOCs for \$350 million, issued for our benefit.

Dividend Restrictions

Under the Bermuda Companies Act 1981, as amended, a Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than its liabilities.

AIG LIFE OF BERMUDA, LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the Insurance Act 1978, a Class E re/insurer is prohibited from declaring or paying any dividends of more than 25% of its total statutory capital and surplus as shown on its previous financial year's statutory balance sheet unless it certifies to the BMA that it will continue to meet its minimum solvency margin and minimum liquidity ratio. As the Company carries on long-term business, it shall not declare or pay a dividend to any person other than a policyholder unless the value of the assets of such insurer, as certified by the Company's approved actuary, exceeds its liabilities by the greater of its margin of solvency or, if applicable, its enhanced capital requirement and the amount of any such dividend shall not exceed that excess. In addition, a Class E reinsurer may not reduce their total statutory capital as set out in their previous financial year's financial statements by 15% or more unless they have received the prior approval from the BMA.

The maximum dividend payout that may be made in 2019 without prior approval of the BMA is \$88 million.

11. INCOME TAXES

U.S. Tax Reform Overview

On December 22, 2017, the U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act reduced the statutory rate of U.S. federal corporate income tax to 21 percent and enacted numerous other changes impacting AIG Bermuda and the insurance industry.

During December 2017, the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provided guidance on accounting for the tax effects of the Tax Act. SAB 118 addressed situations where accounting for certain income tax effects of the Tax Act under ASC 740 may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from the enactment date to complete the accounting under ASC 740. In accordance with SAB 118, a company was required to reflect the following:

- Income tax effects of those aspects of the Tax Act for which accounting under ASC 740 is complete
- Provisional estimate of income tax effects of the Tax Act to the extent accounting is incomplete but a reasonable estimate is determinable
- If a provisional estimate cannot be determined, ASC 740 should still be applied on the basis of tax law provisions that were in effect immediately before the enactment of the Tax Act.

At December 31, 2017, we originally recorded a provisional estimate of income tax effects of the Tax Act of \$57 million attributable to the reduction in the U.S. corporate income tax. Our provisional estimate was based in part on a reasonable estimate of the effects of the statutory income tax rate reduction on existing deferred tax balances and of certain provisions of the Tax Act. We filed our 2017 consolidated U.S. income tax return and have completed our review of the primary impact of the Tax Act provisions on our deferred taxes. As a result, we consider the accounting for the effects of the rate change on deferred tax balances to be complete and no material measurement period changes were recorded for this item. As further guidance is issued by the U.S. tax authority, any resulting changes in our estimates will be treated in accordance with the relevant accounting guidance.

The Tax Act includes provisions for Global Intangible Low-Taxed Income (GILTI) under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax (BEAT) under which taxes are imposed on certain base eroding payments to affiliated foreign companies. There are substantial uncertainties in the interpretation of BEAT and GILTI and while certain formal guidance was issued by the U.S. tax authority, there are still aspects of the Tax Act that remain unclear and additional guidance is expected in 2019. Such guidance may result in changes to the interpretations and assumptions we made and actions we may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner. No provision for income tax related to GILTI or BEAT was recorded as of December 31, 2018.

Tax effects for which a reasonable estimate can be determined

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Provisions Impacting Life Insurance Companies

The Tax Act modified computations of insurance reserves for Life insurance companies. Specifically, the Act directs that tax reserves be computed with reference to the NAIC reserves. Adjustments related to the differences in insurance reserves balances computed historically versus under the Tax Act have to be taken into income over eight years. Accordingly, these changes give rise to new deferred tax liabilities. At December 31, 2017, the provisional estimate with respect to such deferred tax liabilities was determined to be \$0.

As of December 31, 2018, we have completed our review and accounting of the tax reserve computations, and recorded an increase of \$4.6 million to our deferred tax liabilities. This increase in deferred tax liabilities was offset by an increase in the deferred tax asset related to insurance reserves as a result of applying the new provisions of the Tax Act.

Provisions Impacting Projections of Taxable Income and Valuation Allowance Considerations

During 2018, we completed our review of the impact of the Tax Act on our forecasts of taxable income, made certain assumptions related to interpretation of relevant new rules, and incorporated guidance issued by the U.S. tax authority. While the prescribed SAB 118 measurement period has ended, there are still certain aspects of the Tax Act that remain unclear and formal guidance from the U.S. tax authority is still pending. We will continue to review the impact of any additional guidance issued by the U.S. tax authority on our valuation allowance analysis in accordance with the relevant accounting guidance. Accordingly, as of December 31, 2018, we consider the determination of the need for a valuation allowance related to the Tax Act to be complete based on our analysis of existing tax law and relevant tax guidance, and no measurement period adjustment was recorded.

Tax effects for which no estimate can be determined

At December 31, 2017, our accounting for the following elements of the Tax Act was incomplete and we continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the Tax Act.

The Tax Act may affect the results in certain investments and partnerships in which we are a non-controlling interest owner. At December 31, 2017, the information needed to determine a provisional estimate was not available (such as for interest deduction limitations in those entities and the changed definition of a U.S. Shareholder), and accordingly, no provisional estimates were recorded. We have since completed our review of these investments and partnerships. We consider the accounting for this item to be complete and no measurement period change was recorded.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of stranded tax effects within Accumulated Other Comprehensive Income (AOCI) that arise due to the enactment of the Tax Act to retained earnings. We have elected to early adopt the accounting standard in our financial statements for the year ended December 31, 2017. As a result of adopting this standard, we reclassified \$5.2 million from AOCI to retained earnings. The amount reclassified includes stranded effects related to the change in the U.S. federal corporate income tax rate on the gross temporary differences and related valuation allowances.

We use an item-by-item approach to release the stranded or disproportionate income tax effects in AOCI related to our available-for-sale securities. Under this approach, a portion of the disproportionate tax effects is assigned to each individual security lot at the date the amount becomes lodged. When the individual securities are sold, mature, or are otherwise impaired on an other-than-temporary basis, the assigned portion of the disproportionate tax effect is reclassified from AOCI to income from continuing operations.

U.S. Tax Reform – SAB 118 Measurement Period Completion

As of December 31, 2018, we have completed our accounting for the tax effects of the Tax Act. Although the prescribed measurement period has ended, there are aspects of the Tax Act that remain unclear and additional guidance from the U.S. tax authority is pending. As further guidance is issued by the U.S. tax authority, any resulting changes in our estimates will be treated in accordance with the relevant accounting guidance.

AIG LIFE OF BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The U.S. statutory income tax rate was 21 and 35 percent for 2018 and 2017, respectively. Actual income tax (benefit) expense differed from the statutory U.S. federal amount computed by applying the federal income tax rate, due to the following:

Years Ended December 31, (in millions)	2018	2017
U.S federal income tax expense (benefit) at statutory rate	\$ (4)	\$ 30
Adjustments:		
Reserve for uncertain tax position	24	116
Impact of Tax Act	-	57
Other credits, taxes and settlements	(1)	-
Total income tax expense	\$ 19	\$ 203

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities, at the enacted tax rates expected to be in effect when the temporary differences reverse. The effect of a tax rate change is recognized in income in the period of enactment.

The following table presents the components of the net deferred tax assets (liabilities):

Years Ended December 31, (in millions)	2018	2017
Deferred tax assets:		
Basis differential of investments	\$ 48	\$ 13
Deferred policy acquisition costs	1	2
Net unrealized gains on fixed maturity securities available for sale	1	-
Accrued expense	62	61
Total deferred tax assets	112	76
Deferred tax liabilities:		
Net unrealized gains on fixed maturity securities available for sale	-	(2)
Policy reserves	(145)	(119)
Total deferred tax liabilities	(145)	(121)
Net deferred tax liability	\$ (33)	\$ (45)

At December 31, 2018 and 2017, we had no tax loss carryforwards and no deferred tax valuation allowance.

We are included in the consolidated federal income tax return of our ultimate parent, AIG. Under our Amended and Restated Tax Payment Allocation Agreement dated June 6, 2011 ("AIG Tax Sharing Agreement") with AIG Parent, taxes are recognized and computed on a separate company basis. To the extent that benefits for net operating losses, foreign tax credits or net capital losses are utilized on a consolidated basis, we will recognize tax benefits based upon the amount of the deduction and credits utilized in the consolidated federal income tax return. Under the AIG Tax Sharing Agreement, AIG Parent has agreed to indemnify us for any tax liability (including interest and penalties) resulting from adjustments made by the Internal Revenue Service ("IRS ") or other appropriate authorities to taxable income, special deductions or credits related to transactions between our investees and AIGFP.

Assessment of Deferred Tax Asset Valuation Allowance

The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires us to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

Our framework for assessing the recoverability of deferred tax assets requires us to consider all available evidence, including:

- the nature, frequency and severity of cumulative financial reporting losses in recent years;

AIG LIFE OF BERMUDA, LTD. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- the predictability of future operating profitability of the character necessary to realize the net deferred tax asset; and
- prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of deferred tax assets.

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies could change in the near term, perhaps materially, which may require us to consider any potential impact to our assessment of the recoverability of the deferred tax asset. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

Accounting For Uncertainty in Income Taxes

The following table presents a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits, excluding interest and penalties:

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
Gross unrecognized tax benefits at beginning of year	\$ 275	\$ 181
Increases in tax position for prior years	-	94
Gross unrecognized tax benefits at end of year	\$ 275	\$ 275

At December 31, 2018 and 2017, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were \$275 million.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At December 31, 2018 and 2017, we had accrued liabilities of \$252 million and \$228 million, respectively, for the payment of interest (net of the federal benefit) and penalties. In 2018 and 2017, we recognized expense of \$24 million and \$62 million, respectively, for interest (net of the federal benefit) and penalties related to unrecognized tax benefits.

We regularly evaluate proposed adjustments by taxing authorities. At December 31, 2018, such proposed adjustments would not have resulted in a material change to our consolidated financial condition for an individual reporting period, although it is possible that the effect could be material to our consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next twelve months, based on the information currently available, we do not expect any change to be material to our consolidated financial condition.

We are currently under IRS examination for taxable years 2007 through 2013. Although the final outcome of possible issues raised in any future examination is uncertain, we believe that the ultimate liability, including interest, will not materially exceed amounts recorded in the consolidated financial statements. Taxable years 2001 through 2017 remain subject to examination by major tax jurisdictions.

12. RELATED PARTY TRANSACTIONS

Events Related to AIG

In February 2018, AIG Parent closed a series of affiliated reinsurance transactions impacting the Legacy Portfolio. These transactions were designed to consolidate most of AIG's Legacy Insurance Run-Off Lines into a single legal entity, Fortitude Re, formerly known as DSA Reinsurance Company, Ltd., a Bermuda domiciled composite reinsurer. The transactions include the cession of approximately \$31 billion of reserves from AIG's Legacy Life and Retirement Run-Off Lines and approximately \$4 billion of reserves from its Legacy General Insurance Run-Off Lines relating to business written by multiple AIG legal entities, which represented over 83 percent of the insurance reserves in the Legacy Portfolio as of December 31, 2018. Fortitude Re has approximately \$40 billion of total assets, primarily managed by AIG Investments, and is AIG's main run-off reinsurer with its own dedicated management team.

AIG LIFE OF BERMUDA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

AIG Parent formed Fortitude Group Holdings, LLC (Fortitude Holdings) to act as a holding company for Fortitude Re. On November 13, 2018, AIG Parent completed the sale of a 19.9 percent ownership interest in Fortitude Holdings to TC Group Cayman Investment Holdings, L.P. (TCG), an affiliate of The Carlyle Group L.P. (Carlyle) (the Fortitude Re Closing). Fortitude Holdings owns 100 percent of the outstanding common shares of Fortitude Re and AIG Parent has an 80.1 percent ownership interest in Fortitude Holdings. In connection with the sale, certain AIG subsidiaries agreed to certain investment commitment targets into various Carlyle strategies and to certain minimum investment management fee payments within thirty-six months following the closing. AIG also will be required to pay a proportionate amount of an agreed make-whole fee to the extent we fail to satisfy such investment commitment targets.

On September 25, 2017, AIG Parent announced organizational changes designed to position AIG Parent a growing, more profitable insurer that is focused on underwriting excellence. In the fourth quarter of 2017, AIG parent finalized its plan to reorganize its operating model. Commercial Insurance and Consumer Insurance segments transitioned to General Insurance and Life and Retirement, respectively. AIG Parent's core businesses include General Insurance, Life and Retirement and Other Operations. General Insurance consists of two operating segments – North America and International. Life and Retirement consists of four operating segments – Individual Retirement, Group Retirement, Life Insurance and Institutional Markets. Blackboard U.S. Holdings, Inc. (Blackboard), AIG's technology-driven subsidiary, is reported within Other Operations. AIG also reports a Legacy Portfolio consisting of run-off insurance lines, primarily reinsured with our composite reinsurer, Fortitude Re, and legacy investments, which are considered non-core.

Additional information on AIG Parent is publicly available in AIG Parent's regulatory filings with the U.S. Securities and Exchange Commission (SEC), which can be found at www.sec.gov. Information regarding AIG Parent as described herein is qualified by regulatory filings AIG Parent files from time to time with the SEC.

Operating Agreements

Pursuant to a cost allocation agreement, we purchase administrative, investment management, accounting, marketing and data processing services from AIG Parent or its subsidiaries. The allocation of costs for investment management services is based on the level of assets under management. The allocation of costs for other services is based on estimated level of usage, transactions or time incurred in providing the respective services. We incurred approximately \$2 million and \$1 million for such services in 2018 and 2017, respectively. Accounts payable for such services at December 31, 2018 and 2017 were not significant.

Agreements with Affiliates

See Note 5 for discussion of affiliated reinsurance.

We have a Cut-through Agreement with AGL pursuant to which policyowners and their beneficiaries were granted a direct right of action against AGL in the event we become insolvent or otherwise cannot or refuse to perform our obligations under certain life insurance policies issued by us. The Cut-through Agreement was approved by the Texas Department of Insurance. We believe the probability of loss under this agreement is remote.

AIG Parent agreed to exclude any income or loss attributable to an intercompany retrocession reinsurance treaty between us and any subsidiary of AIG Parent from the subsidiary's separate return tax liability when that subsidiary has elected under section 953 (d) of the Internal Revenue Code to be treated as a U.S. entity subject to U.S. tax law. We calculate the tax expense (benefit) on the excluded income and record tax liabilities as deemed capital contributions and tax assets as deemed dividends/capital distributions. In 2018 we recorded such deemed capital distributions of \$15 million, and in 2017, we recorded such deemed capital contributions of \$97 million, which were included in capital distributions to and the capital contributions from AGC Life in the Consolidated Statements of Equity.

AIG LIFE OF BERMUDA, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SUBSEQUENT EVENTS

We consider events or transactions that occur after the balance sheet date, but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures. We have evaluated subsequent events through April 26, 2019, the date the financial statements were issued. Management has concluded that no additional subsequent events required disclosure in these financial statements.